

DEPARTMENT OF TRANSPORTATION**AUDITS AND INVESTIGATIONS**

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April 30, 2008

Mr. Mark A. Paul, Division Chief, Specialty Accounting
Santa Barbara County Department of Public Works - Roads
105 E. Anapamu Street, Room 303
PO Box 39
Santa Barbara, CA 93102-0039

Re: Santa Barbara County - Department of Public Works - Roads
Audit of Indirect Cost Rate Proposal FY 2007/08
File No: P1190-0642

Dear Mr. Paul:

We have audited the Santa Barbara County Department of Public Works-Roads' (DPW-Roads) Indirect Cost Rate Proposal (ICRP) for the fiscal year ended June 30, 2008, to determine whether the ICRP is presented in accordance with Office of Management and Budget (OMB) Circular A-87 and the Department of Transportation's (Department's) Local Programs Procedures (LPP) 04-10. The DPW-Roads management is responsible for the fair presentation of the ICRP. The Roads proposed an indirect cost rate of 60.83% of total direct salaries and wages plus fringe benefits.

Our audit was conducted in accordance with the Standards for Performance Audits set forth in the *Government Auditing Standards* issued by the Comptroller General of the United States of America. The audit was less in scope than an audit performed for the purpose of expressing an opinion on the financial statements of the DPW-Road's. Therefore, we did not audit and are not expressing an opinion on the DPW-Road's financial statements.

The standards require that we plan and perform the audit to obtain reasonable assurance about whether the data and records reviewed are free of material misstatement, as well as material noncompliance with fiscal provisions relative to the ICRP. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the data and records reviewed. An audit also includes assessing the accounting principles used and significant estimates made by the Roads, as well as evaluating the overall presentation.

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The accompanying ICRP was prepared on a basis of accounting principles prescribed in the OMB Circular A-87 and the Department's LPP 04-10, and is not intended to present the results of operations of the DPW-Road's in conformity with generally accepted accounting principles.

The scope of the audit was limited to select financial and compliance activities. The audit consisted of a recalculation of the ICRP, a review of the DPW-Road's Independent Audit Report for the fiscal year ended June 30, 2006, inquiries of DPW-Road's personnel and reliance placed on the single audit report for the fiscal year ended June 30, 2006 and prior audit work completed on February 2, 2007. We believe that our audit provides a reasonable basis for our conclusion.

Because of inherent limitations in any financial management system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the financial management system to future periods are subject to the risk that the financial management system may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Our finding and recommendation were communicated to the DPW-Road's on February 15, 2008. Our finding and recommendation, a summary of the Auditee's response and our analysis of the response are detailed below.

AUDIT RESULTS

Based on audit work performed, the DPW-Road's ICRP for the fiscal year ended June 30, 2008 is presented in accordance with OMB Circular A-87 and LPP 04-10. The approved indirect cost rate is 60.83% of total direct salaries and wages plus fringe benefits. The approval is based on the understanding that a carry-forward provision applies and no adjustment will be made to previously approved rates.

Unresolved Prior Audit Finding

In our prior audit report (P1190-0590), dated February 2, 2007, we reported a finding relating to unallowable contractor costs. The DPW-Road's paid a contractor 15% profit under project BRLS 5951 (021), which is unallowable.

48 CFR 15.404-4 Profit (b)(4)(i)(C): For other cost-plus-fixed-fee contracts, the fee shall not exceed 10 percent of the contractor's estimated cost, excluding fee.

The County subsequently billed and was reimbursed by the Department for these costs. We recommended that the DPW-Road's review all invoices previously submitted to the Department on all its contracts with the Department for any unallowable costs that were billed. Also, we recommended that the DPW-Road's remit the unallowable costs to the Department either directly, or by reducing future billings.

During our current audit, the DPW-Roads stated it is in the process of reviewing all invoices previously submitted to the Department on all its contracts with the Department for any unallowable costs that were billed. The DPW-Roads has not remitted the unallowable costs to the Department either directly, or by reducing future billings. Therefore, this issue has not been resolved

Recommendation

The DPW-Road's should remit the unallowable costs to the Department either directly, or by reducing future billings.

Auditee's Response

The County stated it will further review all contracts with a 15% fixed fee to see if there are any participating costs to offset the fixed fee paid to the contractor.

Analysis of Response

The finding remains as it has not been resolved.

This report is intended solely for the information of the DPW-Roads, Department Management, the California Transportation Commission and the Federal Highway Administration (FHWA). However, this report is a matter of public record and its distribution is not limited.

Please retain the approved Indirect Cost Rate Proposal for your files. Copies were sent to the Department's District 5, the Department's Division of Accounting and the FHWA. If you have any questions, please contact Jimmy Motta, Auditor, at 916-323-7914 or Amada Maenpaa, Audit Supervisor, at 916-323-7868.


MARYANN CAMPBELL-SMITH
Chief, External Audits

Attachments

c: Brenda Bryant, FHWA
Gary Buckhammer, Accounting HQ
Mike Giuliano, District 5

File copy: P1190-0642

Indirect Cost Plan

The indirect cost rate contained herein is for use on grants, contracts and other agreements with the Federal Government and California Department of Transportation (Department), subject to the conditions in Section II. This plan was prepared by the County and approved by the Department.

SECTION I: Rates

<u>Rate Type</u>	<u>Effective Period</u>	<u>Rate*</u>	<u>Applicable To</u>
Fixed with carry forward	7/01/07 to 6/30/08	60.83%	All Programs

* Base: Total Direct Salaries and Wages plus fringe benefits

SECTION II: General Provisions

A. Limitations:

The rates in this Agreement are subject to any statutory or administrative limitations and apply to a given grant, contract, or other agreement only to the extent that funds are available. Acceptance of the rates is subject to the following conditions: (1) Only costs incurred by the organization were included in its indirect cost pool as finally accepted; such costs are legal obligations of the organization and are allowable under the governing cost principles; (2) The same costs that have been treated as indirect costs are not claimed as direct costs; (3) Similar types of costs have been accorded consistent accounting treatment; and (4) The information provided by the organization which was used to establish the rates is not later found to be materially incomplete or inaccurate by the Federal Government or the Department. In such situations the rate(s) would be subject to renegotiation at the discretion of the Federal Government or the Department; (5) Prior actual costs used in the calculation of the approved rate are contained in the grantee's Single Audit, which was prepared in accordance with OMB Circular A-133. If a Single Audit is not required to be performed, then audited financial statements should be used to support the prior actual costs; and, (6) This rate is based on an estimate of the costs to be incurred during the period.

B. Accounting Changes:

This Agreement is based on the accounting system purported by the organization to be in effect during the Agreement period. Changes to the method of accounting for costs, which affect the amount of reimbursement resulting from the use of this Agreement, require prior approval of the authorized representative of the cognizant agency. Such changes include, but are not limited to, changes in the charging of a particular type of cost from indirect to direct. Failure to obtain approval may result in cost disallowances.

C. Fixed Rate with Carry Forward:

The fixed rate used in this Agreement is based on estimate of the costs for the period covered by the rate. When the actual costs for this period are determined—either by the grantee's Single Audit or if a Single Audit is not required, then by the grantee's audit financial statements—any differences between the application of the fixed rate and actual costs will result in an over or under recovery of costs. The over or under recovery will be carried forward, as an adjustment to the calculation of the indirect cost rate, to the second fiscal year subsequent to the fiscal year covered by this plan.

D. Audit Adjustments:

Immaterial adjustments resulting from the audit of information contained in this plan shall be compensated for in the subsequent indirect cost plan approved after the date of the audit adjustment. Material audit adjustments will require reimbursement from the grantee.

E. Use by Other Federal Agencies:

Authority to approve this agreement by the Department has been delegated by the Federal Highway Administration, California Division. The purpose of this approval is to permit subject local government to bill indirect costs to Title 23 funded projects administered by the Federal Department of Transportation (DOT). This approval does not apply to any grants, contracts, projects, or programs for which DOT is not the cognizant Federal agency.

The approval will also be used by the Department in State-only funded projects.

F. Other:

If any Federal contract, grant, or other agreement is reimbursing indirect costs by a means other than the approved rate(s) in this Agreement, the organization should (1) credit such costs to the affected programs, and (2) apply the approved rate(s) to the appropriate base to identify the proper amount of indirect costs allocable to these programs.

G. Rate of Calculation:

FY 2008 Indirect Costs based Actual FY 2006 \$ 5,117,291

Carry Forward -

FY 2008 Direct Salaries and \$ 8,412,551
Wages plus Fringe Benefits Based on Actual
FY 2006

FY 2008 Indirect Cost Rate 60.83%

CERTIFICATION OF INDIRECT COSTS


This is to certify that I have reviewed the indirect cost rate proposal submitted herewith and to the best of my knowledge and belief:

- (1) All costs included in this proposal to establish billing or final indirect costs rates for fiscal year 2008 (July 1, 2007 to June 30, 2008) are allowable in accordance with the requirements of the Federal and State award(s) to which they apply and OMB Circular A-87, "Cost Principles for State, Local and Indian Tribal Governments." Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.

- (2) All costs included in this proposal are properly allocable to Federal and State awards on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the Federal Government and the Department will be notified of any accounting changes that would affect the fixed rate.

I declare that the foregoing is true and correct.

Governmental Unit: County of Santa Barbara


Signature: 

Reviewed, Approved and Submitted by:

Name of Official: Robert W. Geis

Title: Auditor-Controller

Date of Execution: 05/04/2007

Signature: 

Prepared by:

Name of Official: Mark A. Paul

Title: Chief, Specialty Accounting

Telephone No.: 805-568-2141

INDIRECT COST RATE APPROVAL

The Department has reviewed this indirect cost plan and hereby approves the plan.


Signature


Reviewed and Approved by:


Name of Audit Manager

Title: Chief, External Audits

Date: 4/30/08

Phone Number: (916) 323-7105


Signature

Reviewed and Approved by:


Name of Auditor

Title: Auditor

Date: 5/1/08

Phone Number: (916) 323-7914

Department: Public Works Dept 054
Division: Transportation Fund 0015
ICRP Use: 2007-2008 Claims & Billings
Data Date: June 30, 2006

	Total Costs	Excludable Unallowable Costs	Allowable Indirect Costs	Allowable Direct Costs
Personnel Services				
6100 Regular Salaries	8,325,401		1,626,126	6,699,275
6177 Contractors On Payroll	30,935		2,906	28,029
6200 Extra Help and/or Labor	79,164		18,402	60,763
6300 Overtime	38,935		981	37,953
6400 Retirement Contribution	1,299,160		259,735	1,039,425
6450 Supp Retirement Contribution	7,670		1,764	5,906
6500 FICA Contribution	477,852		90,341	387,511
6550 FICA/Medicare	115,940		22,863	93,077
6575 Social Security Alternative	808		276	532
6600 Health Insurance Contrib	410,599		72,770	337,829
6610 Life & Disability Insur	39,986		9,851	30,135
6700 Unemployment Ins Contribution	21,230		18,301	2,929
6900 Workers Compensation	518,964		450,844	68,120
6951 Leave Overhead Applied	0		438,380	(438,380)
6990 Accrued Salaries and Benefits	52,833		(6,615)	59,448
SUBTOTAL	11,419,477	-	3,006,926	8,412,552
7000 - Other Services				
7030 Clothing and Personal	44,652		40,914	3,738
7050 Communications	6,689		5,492	1,196
7053 Telephone Service Local	44,555		35,777	8,778
7070 Household Expense	27,084		14,238	12,845
7080 Janitorial Services	904		815	90
7120 Maintenance - Equipment	282,843		1,482	281,361
7121 Operating Supplies	330,019			330,019
7200 MTC-Struct/Impr & Grounds	19,875			19,875
7348 Instruments & Equip. < \$5000	4,082			4,082
7362 Building Maintenance	33,462		2,517	30,945
7430 Memberships	2,627	2,627		-
7450 Office Expense	39,334		32,573	6,761
7451 Postage	6,578		1,183	5,395
7453 Copier Expense	13,469		11,812	1,657
7455 Computers/Software < \$5000	118,263		94,525	23,738
7460 Professional & Special Service	1,388,261		16,353	1,371,908
7506 Administration Fees	681,184		541,176	140,008
7510 Contractual Services	3,736,269			3,736,269
7511 Contract Surface-Measure D	5,676,832			5,676,832
7512 Contract-Prop 42	1,199,307			1,199,307
7530 Publications & Legal Notices	5,938		1,014	4,924
7540 Rents/Leases-Equipment	60,177		873	59,304
7580 Rents/Leases-Structure	56,886		2,977	53,909
7630 Small Tools & Instruments	22,180		8,478	13,702
7650 Special Departmental Expense	96,457		10,209	86,248
7655 Road Maintenance	1,435,623			1,435,623
7669 Cost Allocations	738,398	738,398		-
7705 Temporary Easement Acquisition	770	770		-
7730 Transportation and Travel	8,348		6,271	2,077
7731 Gasoline-Oil-Fuel	26,335		38	26,297
7732 Training and Travel	20,104		19,118	986
7760 Utilities	83,107			83,107
7832 Interest Expense-Lease Purchase	8,718		8,718	-
7833 Principal Pmt-Lease Purchase	53,282	53,282		-
7862 Contrb To Non-Co Govt	173,942	173,942		-
7891 Reprographics Services Exp	32,163		6,474	25,690
7892 Data Processing Service	122,574		98,608	23,966
7893 Motor Pool Charges	371,319		3,984	367,335
7894 MTC/Radio,Communication	70,459		43,468	26,991
7895 Liability Insurance	409,709		353,700	56,009
7897 Telephone Services	41,858		33,478	8,379
8100 Land & Land Improvements	45,140	45,140		-
8800 Const. in Progress - Contra	(210,651)	(210,651)		-
7901 Oper Trf (Out)	494,639	494,639		-
7905 Oper Trf (Out)-COP/Debt	193,920			193,920
SUBTOTAL	18,017,681	1,298,146	1,396,265	15,323,270
DEPARTMENTAL TOTALS	29,437,159	1,298,146	4,403,191	23,735,822
departmental Indirect Cost Rate				52.34%

Cost Plan Costs:

OMB A-87 CAP for use in 2007-2008	714,100		714,100	-
TOTAL COSTS	30,151,259	1,298,146	5,117,291	23,735,822
Combined Indirect Cost Rate:	Allowable Indirect Costs/Allowable Direct S&B			60.83%
Cost Rate Roll-Forward:	Departmental - current vs. 2 yr prior of 0.00%			n/a
Proposed Indirect Cost Rate:	To be applied to Direct Salaries & Benefits			60.83%

Prepared By: _____

Dept Approval: _____